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| **Council 2013 Geneva, 11 - 21 June 2013** |  |
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| **Agenda item: ADM 6** | **Document C13/65-E** |
| **3 June 2013** |
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| Note by the Secretary-General | |
| SECOND ANNUAL REPORT OF THE  INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC) | |

I have the honour to transmit to the Member States of the Council a report from the Chairman of the Independent Management Advisory Committee (IMAC).

Dr Hamadoun I. TOURÉ  
 Secretary-General

SECOND ANNUAL REPORT OF THE   
INDEPENDENT MANAGEMENT ADVISORY COMMITTEE (IMAC)

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| Summary  This document presents the annual report of the Independent Management Advisory Committee (IMAC) to the ITU Council, covering the Committee’s three meetings held in November 2012, February and May 2013. It contains conclusions and recommendations for Council’s consideration in the areas of internal audit function, risk management and internal controls, financial statements, accounting and external audit, in compliance with IMAC’s Terms of Reference.  This second annual report by IMAC to the ITU Council provides an update on the Committee’s coverage and activity since July 2012 and presents 8 specific recommendations intended to improve the oversight, internal control and governance arrangements to better meet the organisation’s current needs.  This year, the IMAC is inviting the Council to approve its recommendations in order to encourage effective response and timely action in the interests of enhanced accountability.  Action required  Council is invited **to consider** the IMAC report and **to approve** its recommendations.  \_\_\_\_\_\_\_\_\_\_\_\_  References  PP-10 [Resolution](http://www.itu.int/pub/S-CONF-ACTF-2010/en) 162 (Guadalajara, 2010); Council [Decision](http://www.itu.int/md/S11-CL-C-0109/en) 565 (2011);  Document [C12/44](http://www.itu.int/md/S12-CL-C-0044/en) First annual report of IMAC to Council |

**1. Introduction**

1.1 The current members of IMAC appointed by the Council are:

* Mr Eric Adda
* Dr Beate Degen (Vice Chairperson)
* Mr Abdessalem El Harouchy
* Mr Graham Miller
* Mr Thomas Repasch (Chairperson)

1.2 Since IMAC’s first annual report was submitted to Council in 2012, IMAC has met three times, on 7-8 November 2012, 4-6 February 2013 and 15-17 May 2013. Under IMAC’s Terms of Reference, findings of the meetings in November and February were submitted to the Chairman of the Council and the Secretary-General. The findings of the May meeting are incorporated in this second annual report to Council. Reports of the Committee’s meetings and its annual reports as well as other key documents are available to ITU Membership on IMAC’s area of the ITU website, located under Governance and [ITU Council](http://www.itu.int/en/council/Pages/default.aspx).

1.3 In meetings since its last annual report to Council in 2012, IMAC has addressed and pursued as appropriate all areas of its responsibilities, viz. the internal audit function; risk management; internal control; the organisation’s audited financial statements and financial reporting; accounting policies and practice; external audit; and evaluation (noting that as yet there is no formal evaluation function in ITU). The coverage and outcomes from this work are set out further below, together with IMAC’s conclusions and recommendations.

1.4 To improve its communication with stakeholders, during its meeting in February 2013 IMAC met with the Chairman of the Council Working Group on Financial and Human Resources (CWG- FHR) and attended the Working Group’s February meeting. The discussion included IMAC’s work generally; the current status of IMAC recommendations made in the annual report of 2012; and the Working Group’s expectations of IMAC. In February, at the invitation of the Geneva Group, IMAC also met informally in ITU headquarters with representatives of the Geneva Group of Member States. At its meeting in May 2013, IMAC met with the Chairman of the Council. At each of its main meetings, IMAC held substantive discussions with the Secretary-General and/or the Deputy Secretary-General, the Financial Resources Management Department, the Internal Auditor, the External Auditor and other management representatives as appropriate.

**2. Follow-up of the first IMAC report to Council 2012**

2.1 Further to the outcome of the Council 2012, IMAC discussed its emerging working practices to ensure effective cooperation with ITU management, the CWG-FHR, and Internal and External Auditors, consistent with IMAC’s independent role. To support this intention, IMAC decided to meet regularly at the same time as the CWG-FHR.

2.2 The IMAC reviewed the status of implementation of its recommendations and was pleased to note the progress made on the implementation of 5 out of 6 recommendations. In this regard, IMAC presented a report on the implementation status of its recommendations to the second meeting of the CWG-FHR. Both IMAC and the CWG-FHR welcomed the opportunity for productive contact and dialogue.

2.3 Resolution 162 (Guadalajara, 2010) instructed the Council to establish IMAC on a trial basis for four years, and to report to the 2014 Plenipotentiary Conference. In 2012, IMAC’s first year of operation, the Council expressed interest in the performance and evaluation of IMAC. Accordingly, in 2013, IMAC carried out a self-assessment using a model which reflects objective and independent criteria and generally accepted principles in professional public sector good practice which are already in use in a number of other UN entities.

2.4 As a matter of good practice, IMAC intends to keep this assessment framework under review and carry out a [self-assessment](http://www.itu.int/en/council/Documents/imac/IMAC-Self-Assessment.pdf) on its arrangements and performance every two years. The self-assessment carried out in 2013 is available to Council Members on IMAC’s area of the ITU website, under Governance, ITU Council and is available to the Council Working Group on Financial and Human Resources.

**3. Main issues discussed, conclusions and recommendations**

**Internal audit function**

3.1 IMAC concentrated its efforts on further analysing and monitoring the internal audit function and reviewed the Internal Audit Charter, the Internal Audit Manual, the annual Internal Audit work plans and the annual Internal Audit Report to Council.

3.2 IMAC noted with satisfaction that previously recommended advice and changes had been incorporated in the revised Internal Audit Charter.

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| **Recommendation 1:** IMAC recommends that the Secretary-General approve the revised Internal Audit Charter to be consistent with the IIA standards, with some further revisions to ensure that:  - IMAC review the proposed Internal Audit work plan before its approval by the Secretary-General;  - that this annual work plan is reviewed and approved prior to the beginning of the year to which it applies;  - and that a more comprehensive Annual Report by the Internal Auditor, to include an assurance on the overall internal control environment, be submitted and presented to Council for discussion each year. |

3.3 IMAC welcomed the improvement in terms of detail in the annual Internal Audit work plan for 2013 compared with 2012, but expressed concern about the number and relatively high proportion of audit support activities compared with direct audit work. These included: follow up to External Audit recommendations (in other organisations, usually the responsibility of management); follow up of IMAC recommendations; Council and CWG support work; and JIU follow up.

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| **Recommendation 2**: IMAC recommends that the Internal Audit annual work plan focus resources more extensively on direct audit activities and less on audit support activities.  **Recommendation 3**: In addition, to ensure adequate internal audit coverage, IMAC recommends that ITU reconsider the adequacy of resources allocated to the Internal Audit Unit and the activities assigned to Internal Audit. |

3.4 The Standards of the Institute of Internal Auditors require an independent peer review of internal audit every five years as a matter of good professional practice. In its consideration of the Internal Audit function, IMAC noted that ITU Internal Audit had not yet been subject to a peer review.

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| **Recommendation 4:** IMAC recommends that Internal Audit pursue the commissioning of a peer review to take place preferably by 2014. |

3.5 IMAC also noted that the last evaluation of the Internal Audit function by External Audit had been conducted in 2005. International Standards on Auditing and the International Standards of Supreme Audit Institutions, ISSAI, issued by the International Organization of Supreme Audit Institutions, INTOSAI, provide for the external auditor to evaluate the internal audit function’s organisational status, policies and procedures; the level of competence of the internal audit function; and the approach of the internal audit function. IMAC consider this an important and valuable periodic exercise to provide an organisation with assurance about the adequacy and functioning of internal audit oversight and the value for money provided by the resources expended on it.

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| **Recommendation 5:** IMAC recommends than an evaluation of the Internal Audit function be carried out by the External Auditor. |

**External Audit**

3.6 As it had intended, IMAC engaged with the new External Auditor to establish a regular dialogue and cooperation. The Committee met with the external auditors at each of its meetings and discussed their approach and work program. Concerning the scope of activities of the External Auditor, IMAC has presented a recommendation in relation to internal audit (Recommendation 5 above).

**Internal controls and risk management**

3.7 Reviewing the follow-up of the Internal Auditor’s recommendations, IMAC considered it necessary to draw attention to those recommendations that had not been implemented. IMAC also concluded that the overall percentage of recommendations carried out was too low and that ITU management’s response to audit recommendations needed to be both more complete and more rapidly taken forward (an aspect also by the previous External Auditor in respect of both external and internal audit recommendations).

3.8 Following-up on internal audits of regional and area offices in the Asia-Pacific region and the Arab Regional Office, IMAC were advised that the Secretary-General had given instructions to ensure implementation of the Internal Audit recommendations related to those offices. IMAC additionally noted instances where despite long efforts over very many years, a Host Country agreement had not been signed. The absence of an agreed and signed Host Country Agreement for ITU’s regional offices presents a number of unnecessary potential risks, exposures and liabilities to the organization.

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| **Recommendation 6:** IMAC recommends that ITU consider imposing and enforcing a clear and well understood timeframe for the negotiation and signature of Host Country Agreements for its regional offices, beyond which alternative measures should be considered. |

3.9 Concerning the initiative launched by ITU management on strategic risk management, IMAC welcomed the results of the intersectoral workshop organized for ITU senior managers in May 2013. The Committee considered it important for ITU to be pragmatic, particularly by limiting the number of uncertainties and focusing on the main issues. IMAC stressed that identified risks should be associated with ITU's main objectives. It noted recent progress towards systematic integrated risk management and that things were moving in the right direction.

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| **Recommendation 7:** IMAC recommends that ITU pursue development of systematic, enterprise-wide risk management arrangements as a matter of priority, supported by the allocation of necessary budgetary resources, so that risk management can be incorporated in the strategic planning process for the period 2016-2019. |

**Financial Management**

3.10 In reviewing the reports of the External Auditor, the Corte dei Conti, on ITU Telecom World 2012 and on the ITU Financial Operating Report 2012, IMAC took note of the unqualified audit opinion, with an emphasis of matter concerning ASHI liabilities. IMAC acknowledged the long term nature of the ASHI issue and that the ITU Secretariat was exploring options to address this.

3.11 During its consideration of financial issues, IMAC noted that the organization’s Financial Regulations had been modified and submitted to the CWG-FHR, and noted their compliance with IPSAS standards.

3.12 IMAC was also pleased to note that, as it had recommended and in the light of the Committee’s detailed advice, a Statement on Internal Control had been prepared by management to provide valuable annual information and assurance to Member States on the arrangements and effectiveness of the ITU’s internal control systems. This Statement will bring ITU into compliance with best practice in financial reporting and improve accountability.

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| **Recommendation 8**: IMAC recommends that the Secretary-General approve an annual Statement on Internal Control to be issued together with the financial statements. |

**4. Submission of Declarations of Interest by IMAC members**

4.1 In accordance with paragraph 18 of the Annex to Resolution 162, the Chairman of IMAC submitted each member’s annual declaration of interests to the Chairman of the Council.

**5. In appreciation**

5.1 In conclusion, the Committee expresses its deep appreciation to the Secretary-General and his staff in ITU for their commitment and cooperation in supporting the work of the Independent Management Advisory Committee. The Committee also thanks the members of the Council Working Group on Financial and Human Resources for its interest and engagement with IMAC on matters critical to the management and governance of ITU.